

# **Telecommunications Regulatory Authority**

**The regulatory and licensing body for the  
telecommunications sector of the  
Kingdom of Bahrain**

## **THE OPPORTUNITY FOR A SECOND MOBILE TELECOMMUNICATIONS OPERATOR IN THE KINGDOM OF BAHRAIN**

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## THE ESSENCE OF THE OPPORTUNITY

The Kingdom of Bahrain intends to award a second mobile license, early in 2003.

The licensee will be permitted to provide facilities based GSM or Third Generation services, or both, within a geographic and economic environment that is favourable to the provision of mobile services.

The licensee must compete with the Bahrain Telecommunications Company (Batelco), which has enjoyed a monopoly of telecommunications service supply in Bahrain, but loses that status under new legislation that also provides for an independent regulatory regime.

The license will afford benefits more extensive than in many markets, and the further rapid liberalisation of the Bahrain telecommunications market will open incremental opportunities.

Should license obligations be met, no further mobile license would be issued for at least two years.

Bahrain is the financial centre for the Gulf Region. It also has a strong industrial and commercial base and attracts a wealthy travelling population associated with business, military and tourism activities. Private capital is abundant, and, there is no corporate or personal direct taxation.

Bahrain is the prime location from which to implement a Regional telecommunications initiative.

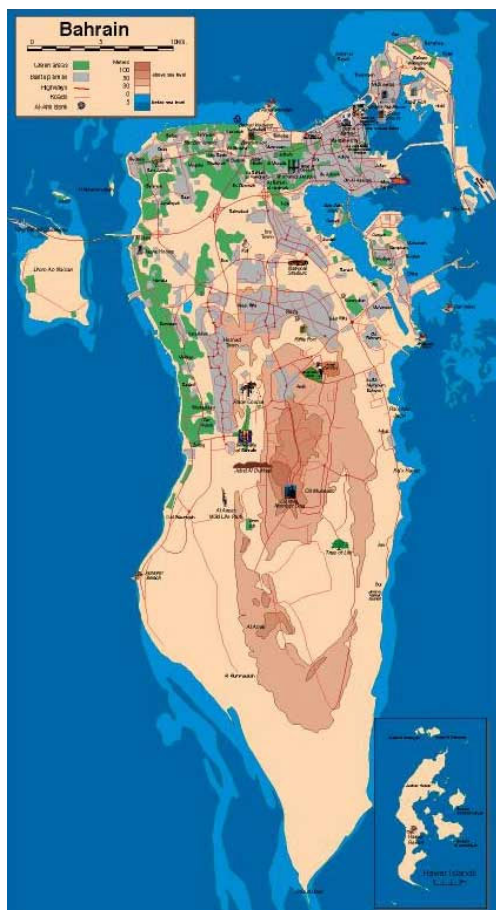
## BACKGROUND

Bahrain has embarked upon a programme of liberalisation and democratic reform.

In February 2002 Bahrain adopted a system of constitutional monarchy, and parliamentary elections were held in October 2002.

Fast track liberalisation of the telecommunications sector has been initiated, with the enactment of a Telecommunications Law.

## ABOUT BAHRAIN



The Kingdom of Bahrain is an island state, with an area of 712 km<sup>2</sup>. It is situated in the Arabian Gulf, off the east coast of Saudi Arabia to which it is linked by a causeway that is some 25 km in length and provides road, telecommunications and pipeline access.

There are plans to build a similar link to Qatar.

Bahrain is a member of the Gulf Co-operation Council, which is an economic grouping of some 32 million people.

Bahrain is also a member of the WTO.

The country is characterised by stability and religious and ethnic tolerance, with an abundance of capital available for investment in an environment with no direct taxation.

Arabic is the official language, although English is widely understood, and, is used by most businesses.

## FACTORS THAT DETERMINE DEMAND

The population is currently some 650,000, with 95% living and working in just 34% of the landmass. The annual rate of population growth is currently 2.7%; 55% of the population are under 30 and just 2.5% are over 65 years. Nominal GDP per capita is around \$11,000 per annum, but GDP per home is around \$71,000 per annum.<sup>1</sup>

The concentration of the population in a small area means that in terms of mobile network infrastructure, Bahrain may be rapidly serviced at a modest cost. This advantage is enhanced by the award of specific rights within the proposed mobile license, relating to infrastructure sharing.

Bahrain is the main financial centre of the GCC and the neighbouring region. In 2000, Bahrain had 19 commercial banks, 48 offshore banking units and 46 representative offices of foreign banks and institutions. In addition, 10 insurance companies operate locally and 68 offshore insurance companies are registered in Bahrain.

Bahrain positions itself as the top service and facilities centre of the Region.

Bahrain is focussed on attracting foreign direct investment (FDI) into six main areas:

- Financial services
- Tourism
- Education and training
- Healthcare
- Information technology and telecommunications
- Downstream developments, stemming from existing aluminium and petrochemicals investments

Capital availability and political stability have spurred a construction boom. Some \$5 billion will be spent on housing and infrastructure in the next decade.

In addition to its service profile, Bahrain has a significant industrial base of oil, refining and aluminium related businesses. There is a desire to further diversify the economy to provide opportunities for the country's youthful and rapidly expanding population.

Within the tourism sector, Bahrain already receives over 3.5 million visitors a year, with a significant portion transiting the causeway from Saudi Arabia. The Government is encouraging the further development of tourism and the recent award of Formula 1 motor racing status to Bahrain will significantly impact on this.

Bahrain attracts foreign investment. According to the World Investment Report 2000, Bahrain's FDI stocks were \$5.26 billion in 1999, compared with \$2.59 billion in Oman, \$2.26 billion in the United Arab Emirates and \$551 million in Kuwait.

In 2000, Bahrain was classified as a "free trade zone"<sup>2</sup>, enabling qualifying investors to benefit from tax breaks and special import-duty treatment. In addition, capital and dividend flows are unrestricted and no direct taxation applies: no corporate taxation applies except in the Oil sector and there are no withholding taxes or direct personal taxation beyond social insurance contributions.

A higher proportion of Bahrainis of both sexes work than in other GCC countries. At the end of April 2001, unemployment was approximately 5%<sup>3</sup> of the total workforce of 307,000. Foreigners account for one-third of Bahrain's population.

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<sup>1</sup> Based on 105,686 housing units per Bahrain Census, 2001, Central Statistics Organization, Ministry of Cabinet Affairs

<sup>2</sup> Source: Bahrain: A New Era of Growth, World Link, November-December 2001

<sup>3</sup> Ministry of Labour, 1<sup>st</sup> April, 2002

<b>Key Economic Indicators of Bahrain</b>	
Size of Country	712 sq km
Size of Population <sup>4</sup>	650,604
Bahrain GDP <sup>5</sup> (nominal, 2001)	\$7,266 m
GDP per capita (nominal, 2001)	\$11,106
Real GDP Growth (2001)	4.8%
Inflation rate	Less than 2%
Income Tax Rate <sup>6</sup>	0%
Value Added Tax	0%
Corporate Tax Rate	0%

**Table 1: Key Economic Indicators**

It can be seen from the information provided that in mobile telecommunications terms, Bahrain has major elements of business demand, with a substantial international profile. In addition, roaming demand arises from tourism, notably from Saudi Arabia, and a business population.

In domestic terms, the youth of the population, and the relative wealth of households, makes Bahrain a prime consumer market.

#### THE WIDER REGION

Led by Bahrain, the Gulf States are making rapid strides toward the adoption of market economies. Even the largest, but most conservative, Saudi Arabia is following this trend.

**Table 2a** shows the current status of telecommunications competition in the GCC States and **Table 2b** the status anticipated in 2005.

	<b>Fixed</b>	<b>Mobile</b>	<b>Internet</b>
<b>Bahrain</b>	Monopoly	Monopoly	Monopoly
<b>Kuwait</b>	Monopoly	Duopoly	Duopoly
<b>Oman</b>	Monopoly	Monopoly	Monopoly
<b>Qatar</b>	Monopoly	Monopoly	Monopoly
<b>Saudi Arabia</b>	Monopoly	Monopoly	Competitive
<b>UAE</b>	Monopoly	Monopoly	Competitive

**Table 2a: Current Status of Competition in the Gulf**

<sup>4</sup> Bahrain Census, 2001, Central Statistics Organization, Ministry of Cabinet Affairs

<sup>5</sup> 2001 figures published by Ministry of Finance and National Economy

<sup>6</sup> EDB Website <http://www.bahrainedb.com/whybahrain/investment.stm#1>

	Fixed	Mobile	Internet
<b>Bahrain</b>	Competitive	Duopoly	Competitive
<b>Kuwait</b>	Duopoly	Competitive	Competitive
<b>Oman</b>	Duopoly	Duopoly	Competitive
<b>Qatar</b>	Duopoly	Duopoly	Competitive
<b>Saudi Arabia</b>	Duopoly	Duopoly	Competitive
<b>UAE</b>	Duopoly	Competitive	Competitive

**Table 2b: Expected Competition in the Gulf circa 2005**

With a combined population of over 32 million, a common language and culture, and, a well-educated, wealthy and young population, the Gulf States represent an outstanding growth opportunity in which to offer innovative services.

Beyond its position within the wealthy Gulf States, Bahrain has strong traditional economic links to less developed markets such as Iran, with a population of c70m.

Bahrain offers a stable, multi-cultural, tolerant environment in the geographic centre of the region, which would make an ideal location in which to start a regional initiative. This position is enhanced by Bahrain's financial markets that provide sources of capital and opportunities for realisation of value.

#### **THE SPECIFIC OPPORTUNITY AND TERMS**

The opportunity is for the grant of a 15-year License for the development and operation of a mobile network and the provision of associated services. The Law, license and associated regulatory sanction provide for the following facilities, in addition to clear radio spectrum:

- The right to interconnect with Batelco fixed and mobile networks
- Access to Batelco duct systems, within which may be installed cabling and directly associated equipment
- Sharing of Batelco towers, masts and remote sites
- The right to deploy own wireless back-haul
- Number portability, if required and sanctioned by the Regulator
- Carriage of international traffic, even from the fixed network, well in advance of any other entrants
- Right to roam on the Batelco mobile network for a period of one year from award of license.
- 3rd Generation license and spectrum can be included (Batelco unable to offer 3G services within nine months of second license award)

The successful licensee also has the potential to enhance its position by acquisition of further licenses within Bahrain, including a national fixed license. Other licenses will become available progressively to 2004.

#### **GENERAL CONDITIONS OF BAHRAINI LICENSES**

Certain general conditions apply to the mobile license:

- A licensee must be a Bahrain domiciled legal entity. The Bahrain entity may, however, be foreign owned and managed.

- The licensee must locate within Bahrain substantially all infrastructure associated with the provision of services in Bahrain, and must maintain all operational activities within Bahrain.
- The license will be issued following a selection process and provide for the provision of both domestic and international services. The selection criteria will encompass assessments of the standing, experience, skills, innovation potential and financial resources of applicants.
- The market will be regulated by the Telecommunications Regulatory Authority (TRA).
- There will not be an auction, or any other form of financial bidding process, for either the license or the necessary radio spectrum. A license award fee will, however, be charged and charges will also be made for the use of radio spectrum.
- Ongoing license fees will be levied that will not exceed 1% of turnover from licensed activities

## A STRONG REGULATORY ENVIRONMENT

The TRA is established as an independent entity. Its powers are vested in a General Director.

The functions of Government, as policy maker for the telecommunications sector, and as a shareholder in Batelco, are separated.

The TRA is charged with:

- Promoting and balancing the interests of customers and other users
- Promoting effective and fair competition among new and existing licensed operators
- Carrying out its duties and exercising its powers in a non-discriminatory and transparent manner.

The TRA will issue licenses, under transparent processes and Batelco will, for the first time, operate under the terms of licenses. The TRA has key strategic powers to deal with a market where the incumbent may retain market power for an extended period. It is able to:

- Set interconnect rates.
- Act as a proxy for competition (where none exists).
- Apply sanctions where predatory or discriminatory practices are applied, or where essential technical and operational co-operation is denied.

## THE BROADER PICTURE

The mobile opportunity is part of a much broader telecoms liberalisation exercise. The second Mobile licensee will not be excluded from applying for licenses in other areas. The timetable for the introduction of other licensed operators is:

- Value Added Service provision and Internet Service Provision as soon as possible
- Fixed national license in the 3<sup>rd</sup> quarter 2004
- International facilities and international service provision in the 1<sup>st</sup> and 3<sup>rd</sup> quarters (respectively) 2004

The National fixed licensees:

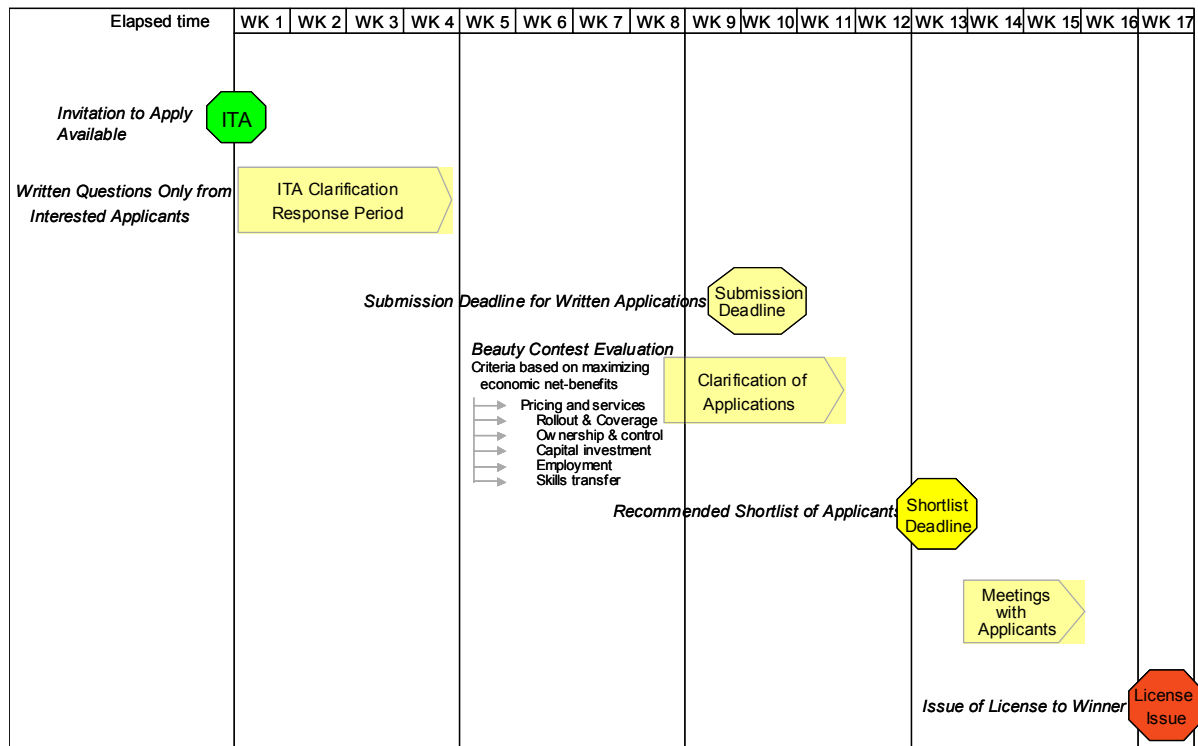
- May exploit services that are required to be provided by Batelco, in order to construct network capacity and provide service
- May deploy any alternative technologies that are sanctioned by the Regulator, to gain access to customers. Radio frequencies may be allocated to facilitate any radio based access or point to point link deployment

- Shall have the obligation and right of connection to other networks that are licensed by Bahrain
- May implement Carrier pre-select and number portability mechanisms

**SECOND MOBILE AWARD PROCESS WILL BE RAPID**

The formal issue of the invitation to apply (ITA) is expected to occur in the first week of January 2003. The deadline for the response to the ITA will be set for approximately 8 weeks later. During this period bidders will be able to request clarification to points within the ITA, through the channels that will be defined in the ITA. No queries or requests for clarification will be accepted after this date.

In the subsequent six weeks, a “beauty contest” evaluation will be carried out on the received bids, which may include requests for further information, or clarification of particular issues, from the bidders. This process will result in the selection of a single, or more than one, preferred bidder. A period for negotiation of the final License terms and conditions is allowed, which will also enable a selection to be made in event that more than one preferred bidders have been selected. The final License award is expected to be made in the second quarter of 2003. This process is outlined in Figure 1 below.

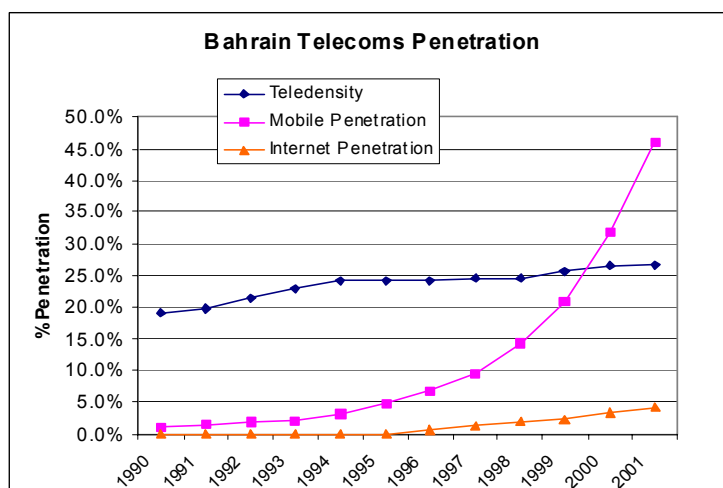


**Figure 1: 2<sup>nd</sup> Mobile License Award Process**

**CURRENT MARKET**

Batelco provides service by means of GSM and DCS networks. Mobile penetration in Bahrain is relatively substantial even though call charges remain high when compared to liberalised markets in other parts of the world. The bulk of users subscribe to pre-pay services.





**Figure 2: Telecoms Penetration in Bahrain**

A higher than normal fixed substitution opportunity has existed due to a relatively small difference in pricing between fixed and mobile for international calls. This has contributed to mobile penetration exceeding that of fixed lines as far back as 1999. However, this effect may be reduced somewhat in the future due to fixed call tariff rebalancing, which is being carried out as part of the liberalisation process.

#### COMPARING MOBILE PENETRATION IN BAHRAIN WITH OTHER MARKETS

**Table 3** below shows the mobile penetration in Bahrain compared with that in other non-European countries with small sized economies.

Country	Cellular Subs <sup>7</sup> 2001 (k)	Cellular Penetration	GDP (PPP) <sup>8</sup> 2001 \$m	Population (k)	GDP (PPP) Per Capita \$k
<b>Bahrain</b>	<b>300</b>	<b>46</b>	<b>10,053</b>	<b>651</b>	<b>15.45</b>
Kuwait	489	25	31,351	1,971	15.91
UAE	1,909	72	46,729	2,653	17.61
Macao SAR	195	43	7,967	448	17.78
New Zealand	2,417	62	79,770	3,890	20.51
Singapore	2,859	69	93,846	4,131	22.72
Qatar	179	29	14,473	610	23.73

**Table 3: Comparison with small economies<sup>9</sup>**

Note: Mobile penetration for Bahrain was estimated at around 55% in October 2002.

It can be seen that the comparisons show mixed results, often driven by local circumstances. The UAE, a close neighbour and economic rival of Bahrain, indicates what is possible to achieve.

Table 4 below provides a comparison with European economies, most of which have EU oriented competitive market structures.

<sup>7</sup> Source: Cellular Subscribers 2001, International Telecommunications Union,

<sup>8</sup> Source: World Rankings 2001, World Bank

<sup>9</sup> GDP is adjusted for Purchasing Power Parity (PPP) to normalize country comparisons.

Country	Cellular Subs 2001 (k)	Cellular Penetration %	GDP (PPP) 2001 \$m	Population (k)	GDP (PPP) Per Capita \$k
Estonia	651	46	14,062	1,430	9.83
Slovak Republic	2,147	40	63,478	5,403	11.75
Hungary	4,968	50	131,839	9,974	13.22
Czech Republic	6,769	66	152,786	10,275	14.87
<b>Bahrain</b>	<b>300</b>	<b>46</b>	<b>10,053</b>	<b>651</b>	<b>15.44</b>
Malta	139	35	6,736	392	17.18
Greece	7,962	75	184,878	10,596	17.45
Portugal	7,978	77	179,765	10,303	17.45
Slovenia	1,516	76	36,268	1,995	18.18
Cyprus	314	46	15,764	677	23.29
Finland	4,044	78	132,845	5,195	25.57
Denmark	3,954	74	151,636	5,367	28.25
Iceland	235	82	8,726	287	30.40
Norway	3,737	83	138,869	4,528	30.67
Ireland	2,800	73	123,178	3,839	32.09
Luxembourg	432	97	23,509	447	52.59

**Table 4: Comparison with small economies in Europe<sup>10</sup>**

In this case the evidence is drawn from more mature markets and is consistent in indicating that Bahrain will in due course achieve high levels of penetration. The other factor that is evident within Table 3 is a broad relationship between GDP per capita and demand penetration.

In this regard it is useful to note that long-term population growth trends suggest that the population of Bahrain will reach some 730,000 by 2006. Recent trends and individual sector forecasts for Bahrain, such as an EIU estimate of a 4.6% GDP growth rate for 2003, suggest that GDP growth will average at least 3.5% p.a. over the same period.

At these rates of growth, forecasts of mobile penetration at 77% of an enlarged population, by 2006, (made by third party analysts) would seem entirely reasonable.

#### **SOURCES OF FURTHER ASSISTANCE**

Responses to initial queries will be handled by Intercai Mondiale Limited, a specialist telecommunications consultancy, which has been retained for this purpose.

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<sup>10</sup> Sources as per Table 3.